

Agenda Date: August 16, 2006
Item Number: A3

Docket: UT-060812
Company Name: Verizon NW

Staff: Jing Roth, Senior Telecommunications Analyst
Kathy Folsom, Telecommunications Analyst

Recommendation

Take no action, allowing the tariff to take effect, and support efforts by staff to address issues related to bundled services in a potential future interpretive policy statement or rule.

Background:

“Bundled” offerings have become popular with carriers in recent months. Staff has been working on developing a consistent analytical approach for reviewing compliance of bundles, and feels that this filing represents an important milestone. On the basis of this filing and discussion with stakeholders, staff intends to develop a recommended set of guidelines in the form of a draft interpretive policy statement and present these guidelines to the commission and stakeholders within 90 days for discussion and action as appropriate.

Discussion

On May 18, 2006, Verizon NW filed this tariff revision to introduce two package or “bundled” service offerings into its General and Local Exchange Tariff – Regional Value & Regional Essentials.

Regional Value (RV) – Optional, month-to-month package of services that includes a flat-rated network access line, waiver of nonrecurring charges, and unlimited intraLATA/Intrastate Toll for \$27.04.

Regional Essentials (RE) – Optional, month-to-month package of services that includes a flat-rated network access line, waiver of nonrecurring charges, Caller ID, Call Waiting/Cancel Call Waiting, Voice Mail and unlimited intraLATA/Intrastate Toll for \$32.04.

Staff applied the following laws and rules in analyzing the company's proposed tariff revision:

Undue discrimination RCW 80.36.170 – Telecommunications companies are prohibited from engaging in undue discrimination in their provision of regulated services. One potential result of bundling is that customers pay different prices for the same services.

Unfair competition RCW 80.36.186 – A telecommunications company is prohibited from giving an undue advantage to itself in a competitive market through the pricing of or access to its non-competitive services. Bundles that combine competitive and non-competitive services present the potential for unfair competition, if the result is that customers receive a more favorable price

for a company's regulated services if they choose that company's competitive service.

Below-cost pricing RCW 80.36.330(2) – Companies that offer regulated services are prohibited from selling competitive services below cost. Bundles that combine competitive and non-competitive services create the potential for below-cost pricing of the competitive service, since that price for that service is not separately stated.

Consumer protection RCW 19.86.170, RCW 80.36.360 – the consumer protection act does not apply to services regulated by the UTC but does apply to competitive telecommunications companies. Bundles that include competitive service but are offered in a tariff raise a concern about potentially inappropriate exemption from the consumer protection act.

Analysis:

After consultation with staff the company made several alterations to its filing:

1. The original bundled package was split into two offerings. The local calling elements remain in the tariff and the unlimited toll element moves to Verizon NW's price list. (RE local package \$25.04, unlimited intraLATA/intrastate toll \$7).
2. The local package is offered on a stand-alone basis with no requirement that the customer also buy the competitive toll package. The toll piece, however, is available only if a customer purchases the local package. This change addressed staff's concern that market power in the regulated service could be used to favor the company's competitive offerings.
3. The company adjusted the toll floor, addressing imputation concerns raised by staff.
4. The company committed to report minutes of use and take rate after six months and one year, addressing staff's concern that usage of an unlimited service could not be accurately evaluated.
5. Removed RV from the proposal. RV, when split between the tariff and price list, would have resulted in a monthly charge of \$20.04 for the line and a waiver of non-recurring charges (NRC), substantially more than the current monthly price of a line at \$15.43 plus one-time charges of up to \$48. Removing the RV elements addressed staff's concern that bundle and basic customers would be paying different prices for the same services.

Based on the changes and commitments made by Verizon NW, staff is satisfied that this tariff revision is in compliance with law and can be allowed to go into effect.

Staff appreciates the company's patience and willingness to work through issues cooperatively to make this filing fully compliant with Washington law. The services are priced above cost. The bundle price is less than the sum of "stand-alone" prices for the same services. The bundles offered in this filing compare favorably with other existing bundles: the smaller bundles of services carry lesser price tags than do bundles of more or higher-value services. Minutes of use and take rate will be reported, allowing confirmation of projections on demand and utilization.

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Conclusion:

This filing is in compliance with law and should be allowed to become effective.